

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00
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FM AMEMBASSY BONN
TO SECSTATE WASHDC 1844
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMCONSUL HAMBURG
AMCONSUL BREMEN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 16784

E. O. 11652: GDS

TAGS: EAIR, FR, UK, GW

SUBJECT: FRG OFFICIAL COMMENTS ON UK AIRBUS PARTICIPA-
TION

REF: PARIS 29292

SUMMARY. FRG OFFICIAL IN CHARGE OF SUBSIDIES TO AIRBUS
INDUSTRY SAID BONN WELCOMES BRITISH ENTRY INTO CONSOR-
TIUM EVEN WITHOUT BRITISH AIRWAYS ORDERS. FRG PLANS TO
REDUCE DEVELOPMENT SUBSIDIES FOR B310 AND SEES UK PAR-
TICIPATION AS EASING GERMAN FINANCIAL BURDEN. HE EXPECTS
SEP.14-15 SCHMIDT-GISCARD MEETING TO RESOLVE LATEST DATE
UK CAN JOIN. OFFICIAL
ALSO STATED FRG WOULD TAKE LITTLE IF ANY ACTIVE PART
IN THE JET PROGRAM. END SUMMARY

1. EMBOFF DISCUSSED B310 PRODUCTION AND FINANCING
WITH DR. HANS BIRKE OF THE FRG ECONOMICS MINISTRY.
BIRKE HEADS THE DIVISION RESPONSIBLE FOR THE
SUBSIDIES AND GUARANTEES THE GERMAN GOVERNMENT PROVIDES
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TO THE AIRBUS INDUSTRY IN WEST GERMANY.

2. BIRKE SAID BONN REGARDS UK PARTICIPATION IN B310
PRODUCTION DIFFERENTLY THAN PARIS DOES. THE FRG
WANTS BRITISH ENTRY EVEN WITHOUT B310 ORDERS FROM
BRITISH AIRWAYS (BA). HE NOTED THAT ALTHOUGH GERMANY
WOULD WELCOME BA PURCHASES OF THE B310, SINCE BONN

HAD NEVER PRESSURED LUFTHANSA TO BUY THE A300, THE FRG COULD UNDERSTAND WHY LONDON WAS RELUCTANT TO PRESSURE BA.

3. BIRKE EXPLAINED THAT BRITISH PARTICIPATION WOULD EASE THE BURDEN OF FRG FINANCING, PARTICULARLY SUBSIDIES AND GUARANTIES. AS AN EXAMPLE, HE MADE THE ASSUMPTION THAT IF A TOTAL OF 800 UNITS OF THE AIRBUS FAMILY WERE PRODUCED, BRITISH PARTICIPATION WITH ITS ECGD FACILITIES COULD SAVE THE FRG DM 1 BILLION IN EXPORT CREDITS. BIRKE STATED IT WAS BONN'S INTENT TO REDUCE DEVELOPMENT COST SUBSIDIES FROM THE 90 PER CENT PROVIDED FOR THE B2/B4 TO 80 PER CENT OR 85 PER CENT FOR THE B310; IF THE UK DID NOT PARTICIPATE, THE DEVELOPMENT SUBSIDIES WOULD BE HIGHER AND MORE DIFFICULT, BUT NOT IMPOSSIBLE, TO SUSTAIN. HE STRESSED THE NEED FOR THE UK TO DECIDE SOON SINCE THE INDUSTRY HAD TO BEGIN TOOLING UP. BIRKE ANTICIPATED THAT SCHMIDT AND GISCARD WOULD MAKE A FINAL DECISION CONCERNING UK ENTRY DURING THEIR SEPTEMBER 14-15 MEETING IN AACHEN.

4. BIRKE DESCRIBED THE FRENCH ATTITUDE AS DISTRUST STEMMING FROM THE 1969 EXPERIENCE WHEN THE UK FIRST AGREED TO BE PART OF THE AIRBUS INDUSTRY AND THEN PULLED OUT. HE SAID THAT SINCE THEN PARIS HAS, AT
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TIMES, WARNED BONN TO BE PARTICULARLY CAREFUL WHEN DEALING WITH THE BRITISH ON THE AIRBUS ISSUE. IN THIS VEIN, THE FRENCH CONTINUE TO INSIST ON IRONCLAD GUARANTEES FROM LONDON BEFORE THEY WILL ACCEPT THE UK INTO THE CONSORTIUM. THE FRG, ON THE OTHER HAND, BIRKE NOTED, HAS GOOD INDUSTRIAL AGREEMENTS WITH THE BRITISH, FEELS THE UK TAKES THESE AGREEMENTS SERIOUSLY, AND THUS TRUSTS LONDON TO LIVE UP TO ITS OBLIGATIONS IN THE CONSORTIUM.

5. EMBOFF ASKED WHETHER THE FRG THINKS THERE CAN BE RATIONAL B310 PRODUCTION WITHOUT SUBSTANTIAL BA PURCHASES. BIRKE REPLIED THAT GERMANY EXPECTS THAT SINCE THE B310 WILL BE ANOTHER MEMBER OF THE AIRBUS FAMILY, THE 18 AIRLINES WHICH ALREADY HAVE B2/B4 AIRCRAFT WILL LOOK FAVORABLY UPON THE B310. HE NOTED THAT AIRBUS INDUSTRIE HAS 20 LETTERS OF INTENT AND 46 OPTIONS FOR THE B310, PLUS 114 ORDERS AND 53 OPTIONS FOR THE B2/B4.

6. REFERRING BACK TO SUBSIDIES, BIRKE STRESSED THAT THE FRG WOULD SUBSIDIZE DEVELOPMENT COSTS OF THE B310

BUT NOT TO THE SAME EXTENT AS THEY HAD TO THE A300.

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HE NOTED THAT IN ADDITION TO DEVELOPMENT COSTS, THE FRG WOULD PROVIDE GUARANTEES TO DEUTSCHE AIRBUS (THE GERMAN AIRBUS MANUFACTURER) WHICH IS 65 PERCENT OWNED BY MBB AND 35 PERCENT OWNED BY VFW. HE SAID THAT WITH PRODUCTION COSTS RUNNING BETWEEN DM 2 -3 BILLION, DEUTSCHE AIRBUS COULD NOT SECURE THE NECESSARY LOANS WITHOUT GOVERNMENT GUARANTIES. BIRKE EXPLAINED THAT WITHIN THIS GUARANTEE SYSTEM THERE IS ALSO A "REVERSE GUARANTEE" BETWEEN MBB AND VFW AND THE FRG. IF DEUTSCHE AIRBUS COULD NOT REPAY ITS LOANS, THE BANKS WOULD LOOK TO THE GOVERNMENT FOR REPAYMENT; THE FRG IN TURN WOULD LOOK TO MBB AND VFW FOR REPAYMENT. BIRKE NOTED THAT ALTHOUGH AIRBUS INDUSTRIE NEEDED TO REPAY THE SUBSIDIES THERE WAS NO INTEREST ATTACHED TO THE LOANS; INTEREST AT MARKET RATES WAS ATTACHED TO THE GUARANTEES. BIRKE SAID THE FRG ALSO PROVIDED EXPORT FINANCING AS A SPECIAL INCENTIVE FOR AIRBUS; THESE EXPORT INCENTIVES COULD TAKE THE FORM OF BUYER'S CREDITS OR LEASING. HE EXPLAINED THAT THE EXPORT

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FINANCING PROGRAM WORKED BY HAVING THE GERMAN GOVERNMENT PAY THE DIFFERENCE BETWEEN THE BANKS' INTEREST RATE AND THE BUYER'S OFFER. FOR EXAMPLE, IF THAI INTERNATIONAL PROPOSED A 8.5 PERCENT BUT THE GERMAN BANK CONSORTIA WANTED 10, THE FRG WOULD CONSIDER PICKING UP THE 1.5 PERCENT DIFFERENCE. BIRKE NOTED THAT IT IS BECOMING MORE DIFFICULT TO ELICIT COMPETITIVE INTEREST RATES FROM GERMANY BANKS ON AIRBUS FINANCING. THE BANKS TEND TO JOIN IN CONSORTIA SO THAT THERE ARE FEW COMPETITORS LEFT TO DRIVE DOWN THE INTEREST RATE.

7. BIRKE AGREED THAT IF THE UK DID NOT COME INTO THE B310 CONSORTIA, VFW IN BREMEN WOULD RECEIVE MOST OF THE NEW WING WORK. HE SAID THE GOVERNMENT EXPLAINED TO THE GERMAN TRADE UNIONS THAT GERMANY WOULD STILL DO BETTER WITH UK PARTICIPATION THAN WITH MORE WORK AT VFW, SINCE BRITISH ENTRY WOULD MEAN LESS SUBSIDIES, A SMALLER TAX BURDEN, AND PERHAPS MORE GOVERNMENT SUPPORT FOR A LONGER PRODUCTION RUN. BIRKE DESCRIBED THE LABOR UNIONS AS WILLING TO ACCEPT THIS EXPLANATION.

8. TURNING TO THE JET CONCEPT FOR A MINUTE, BIRKE PREFERRED TO SEE COOPERATION BETWEEN A U.S. FIRM SUCH AS MCDONALD DOUGLAS AND THE UK. HE STATED THAT GERMAN INDUSTRY HAD ENOUGH TO DO IN CONSOLIDATING ITS POSITION AND STRENGTH WITHIN THE AIRBUS PROGRAM AND FELT THE FRG HAD NEITHER THE FINANCING NOR THE TECHNICAL SKILLS IN DEPTH TO BECOME INVOLVED IN THE JET PROGRAM IN ANY MAJOR WAY. BIRKE EMPHASIZED THAT THE FRG COULD NOT COOPERATE IN ANY JET PROGRAM IF THE UK DID NOT PARTICIPATE, AND THAT EVEN WITH

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BRITISH PARTICIPATION, ONE COULD NOT EXPECT ANY MORE THAN A VERY MODEST FRG CONTRIBUTION.

9. BEGIN UNCLASSIFIED. BIRKE ALSO PROVIDED EMBOFF WITH A PUBLIC STATEMENT FROM STATE SECRETARY MARTIN GRUENER OF THE FRG ECONOMICS MINISTRY. GRUENER IS THE GOVERNMENT'S CHIEF SPOKESMAN AND COORDINATOR FOR THE AIR INDUSTRY. AN INFORMAL TRANSLATION FOLLOWS: QUOTE: THE COORDINATOR FOR TH GERMAN AIR AND SPACE INDUSTRY AND PARLIAMENTARY STATE SECRETARY AT THE FEDERAL MINISTER OF ECONOMICS, MARTIN GRUENER, HAS

WELCOMED BRITISH WILLINGNESS TO JOIN THE AIRBUS PROGRAM ON A BASIS OF ARRANGEMENTS WORKED OUT BY THE INDUSTRY (DEUTSCHE AIRBUS GMBH, SNIAS, AND BRITISH AEROSPACE). THE PREVIOUS BRITISH DECISION TO WITHDRAW FROM THE AIRBUS PROGRAM WILL THUS BE CHANGED. THE CHANGE BECAME POSSIBLE AFTER THE INDUSTRY HAD SUCCEEDED IN OPENING THE WORLD MARKET FOR THE AIRBUS. THE BRITISH DECISION IS A GREAT SUCCESS FOR THE AIRBUS PROGRAM, WHOSE CENTRAL ROLE IN THE EUROPEAN AIRCRAFT INDUSTRY CAN NOW BE FURTHER STRENGTHENED.

THE BRITISH DECISION OPENS THE WAY FOR FURTHER CONSULTATIONS WHEREIN DETAILS WILL BE STIPULATED AND THE DISCUSSIONS STARTED IN JULY 1978 WILL BE CONCLUDED BY AN APPROPRIATE GOVERNMENT ANNOUNCEMENT." UNQUOTE. STOESSEL

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